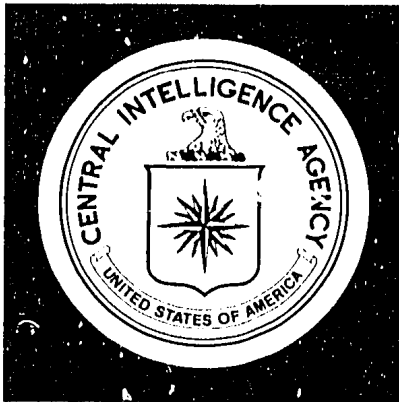


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# Economic Intelligence Weekly

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CIA No. 7922/74  
17 January 1974

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*The oil situation is now being covered mainly in International Oil Developments, published each Friday morning.*

Note: Comments and queries regarding this publication are welcomed. They may be directed to Mrs.

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**SECRET****ECONOMIC INTELLIGENCE WEEKLY****Notes****European Community: Growth Prospects**

The EC Commission forecasts a 1.5% decline in Community GNP and an average inflation rate of between 10% and 15% in 1974. Prices of imported oil are expected to run 180% higher than last year, resulting in a \$17.5 billion deterioration in the EC trade balance. A \$19 billion current account deficit is in prospect, even with some reduction in oil imports and a rise in export prices. The US mission in Brussels justifiably views the inflation and trade estimates as optimistic. Commission officials fear that the varying impact of the energy situation on member states will further strain EC unity. [REDACTED]

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**Canada Attempting to Reduce Dependence on US Coal**

Ontario is taking steps to reduce coal imports from the United States, which amount to 17 million tons annually, valued at \$175 million. Steel and electric power plants, which use nearly all the imports, are trying Alberta coal, which has a lower heating value but a lower sulphur content than US coal. The main obstacle to using Alberta coal remains the high cost of transport. Both Alberta and Ontario are certain to press for lower freight rates at the federal-provincial energy meeting set for late January. [REDACTED]

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**Japanese Orders for US Aircraft**

Despite the energy crisis, Japanese airlines are planning to take deliveries in 1974-75 of \$430 million worth of US aircraft. Moreover, orders for 1976 delivery were raised in December from 7 to 13 wide-bodied three-engine jets, worth \$310 million. Manufacturers claim these latter aircraft will yield substantial fuel savings on domestic routes. [REDACTED]

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**China Takes Steps to Overcome Packaging Deficiencies**

China recently purchased 3,000 tons of linerboard (cardboard) from a US firm [REDACTED]

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[REDACTED] In 1973, China purchased linerboard from the United States, Canada, Japan, Sweden, Finland, and New Zealand. These

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measures should help China overcome packaging deficiencies, which have hindered exports to the developed countries.

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### **Yugoslavia Buys Boeing Aircraft**

Yugoslavia recently became the second East European country along with Romania to purchase Boeing aircraft. Yugoslavia's international carrier, Jugoslovenski Aerotransport (JAT), ordered two Boeing 727-200 jetliners for delivery in mid-1974. JAT also has taken options on up to four additional 727s. It plans to operate these aircraft along with 13 DC-9s on scheduled international routes servicing Europe and the Middle East.

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## Articles

**US-ROMANIAN TRADE: MOST SYSTEMS ARE GO!**

US-Romanian trade almost certainly will exceed \$300 million in 1974 after climbing to an estimated \$200 million in 1973. Contracts signed or under negotiation should carry this momentum into 1975.

## US-Romanian Trade

|                 | Million US \$ |         |            |
|-----------------|---------------|---------|------------|
|                 | Exports       | Imports | US Surplus |
| 1965            | 6.4           | 1.8     | 4.6        |
| 1970            | 66.4          | 13.4    | 53.0       |
| 1971            | 52.5          | 13.8    | 38.7       |
| 1972            | 69.4          | 31.5    | 37.9       |
| 1973 (9 months) | 82.2          | 37.5    | 44.7       |

US Export-Import Bank credits of \$64 million spurred the 1973 trade boom as Romania for the first time ordered large amounts of American machinery and equipment. Major deals included the sale of aircraft by Boeing, sale of a tire plant by General Tire, and an equity investment by Control Data. In addition, Manufacturers Hanover Trust will open a branch bank in Bucharest, and the US-Romanian Joint Economic Commission will hold its first meeting this year. Now Romania is looking to the United States for participation in Black Sea petroleum exploration and for equipment to produce machine tools and diesel engines.

Further increases in US-Romanian trade after 1975 will depend on how well Bucharest manages its balance of payments. Already heavily in debt to the West, the Romanians have told the IMF that they face a large bulge in repayments in 1975. At the moment, export prospects seem bright. Romania will benefit from higher world prices for its petroleum and agricultural products. Furthermore, the volume of sales to the United States -- consisting mainly of fuel oil, food products, clothing, footwear, and other consumer goods -- should continue to increase.

Even with increased exports, Romania may have to resort to direct import controls or debt refinancing by 1975. The United States, which by the end of 1974 will hold only about \$100 million of Romania's \$1.5 billion debt, probably would not be asked for relief. Meanwhile, Bucharest has introduced a new tariff system. Stiff rates of 40% to 60% have been put on machinery imports, and the tariff law permits Romania to impose higher rates for the United States and other countries that do not grant MFN treatment.

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1. US - East European trade climbed by nearly 90% last year. This is the first in a series of articles on current developments and prospects for US economic relations with each of the East European Communist countries.

**SECRET****PRICE HIKES FOR PHOSPHATE ROCK**

Phosphate and multinutrient fertilizers, already high-priced and in short supply on world markets, will become even more expensive as a result of unprecedented increases in the cost of phosphate rock.

- Morocco tripled its price of phosphate rock this month, from \$14-\$16 per ton to \$37.50-\$50.00.
- Tunisia and Senegal are also tripling prices.
- Florida producers doubled export prices as of 1 January, from \$10-\$14 per ton to \$20-\$30.
- Export prices of Soviet phosphate rock doubled recently, according to one trader.

Repercussions of the price increases will be widespread. Phosphate rock accounts for one-third to one-half of the cost of producing phosphoric acid, the principal ingredient in manufacturing phosphate and a major element in multinutrient fertilizers. In the United States, prices for phosphate fertilizers had already increased by more than one-third between 25 October (when price controls were eased) and mid-December 1973. Phosphate rock will not be diverted from domestic to overseas markets immediately since most US consumers are supplied on the basis of long-term contracts. As contracts expire, domestic fertilizer producers will have to pay more.

The Moroccan price increases shook West European markets, which absorb nearly half the phosphate rock moving in international trade.

- Italy's largest producer of phosphate fertilizers, Montedison, has halted production because of sharp increases in raw material costs and a government freeze on selling prices.
- In the United Kingdom, which depends on Morocco for about 75% of its phosphate rock, the fertilizer price increases granted to a few producers do not cover the higher cost of phosphate rock.
- The Dutch fertilizer producers association recently announced price rises averaging 15% for multinutrient fertilizers.
- Prices of phosphate and multinutrient fertilizers probably will increase by 40% in Belgium and at least 20% in France.

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Other areas hard hit by the price increases include Eastern Europe, Japan, India, and China. Eastern Europe imported more than 8 million tons of phosphate rock in 1972 and considerably more in 1973 - mainly from the USSR, Morocco, and Tunisia. Japan, India, and China together imported about 5 million tons.

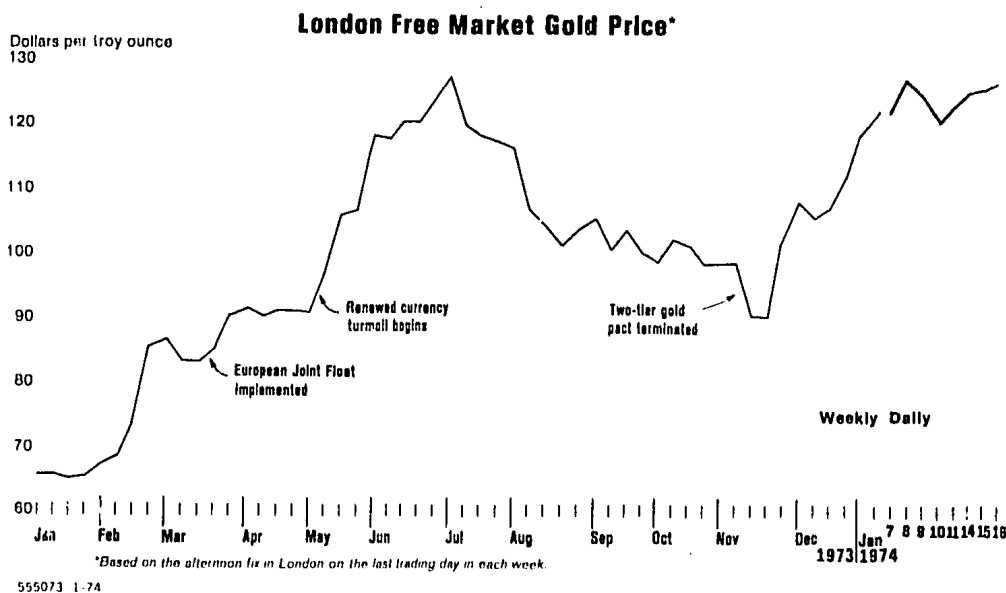
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**GOLD MARKET DEVELOPMENTS**

Gold prices continue at near-record levels. Unstable conditions on world money markets have recently increased demand for gold, and reduced Soviet sales have limited the supply.

Moscow made only small sales in October and has sold practically no gold since then, indicating that its requirements for foreign exchange have been temporarily satisfied. During the first nine months of 1973, the Soviets sold about 300 tons of gold, compared with 160 tons in all of 1972. South Africa, the world's largest producer, continued to sell gold from its reserves during the last quarter of 1973 to meet its exchange needs.

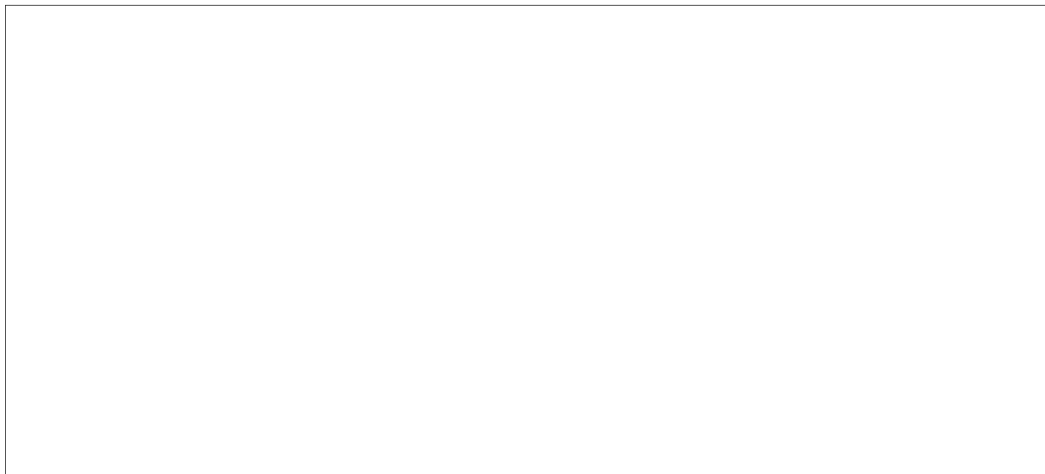


Speculative demand for gold probably will remain high in 1974, since the energy crisis assures turbulent money markets. Non-speculative demand, for commercial and dental use, is not sensitive to price changes and thus is likely to continue its slow growth. Soviet gold sales probably will drop in 1974, given the expected improvement in the hard currency trade balance. Increased South African offerings could more than offset the cut in Soviet sales.

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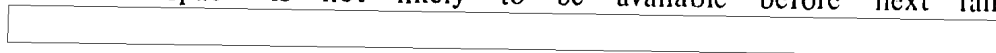
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**SECRET****WORLDWIDE FOOD DEVELOPMENTS**

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***USSR***

Moscow has eased the pressure on US wheat supplies by deferring delivery of 500,000 tons until after 1 July. Negotiations are under way at the governmental level to postpone shipment of the remaining 1 million tons scheduled for FY 1974. Storage problems arising from this year's bumper harvest may be a factor in Moscow's accommodating attitude. Although the Soviets have accelerated the construction of new elevators, additional space is not likely to be available before next fall.



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Discussions have ended on a possible USSR purchase of 1 million tons of US soybeans. The US firm has withdrawn its agent from Moscow and expects no further interest in the near future. The Soviets recently announced a record sunflower seed crop in 1973, which should provide adequate supplies of vegetable oil for domestic consumption and export to traditional purchasers.



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***Yugoslavia***

The area seeded last fall to winter wheat, though short of expectations, exceeded the 1972 level by 8%. Given favorable growing conditions the 1974 wheat harvest could rise to 5 million tons, compared with the 4.7 million tons in 1973. This level of output would sharply cut Yugoslavia's import needs in FY 1975 below the 500,000 tons being imported in FY 1974.



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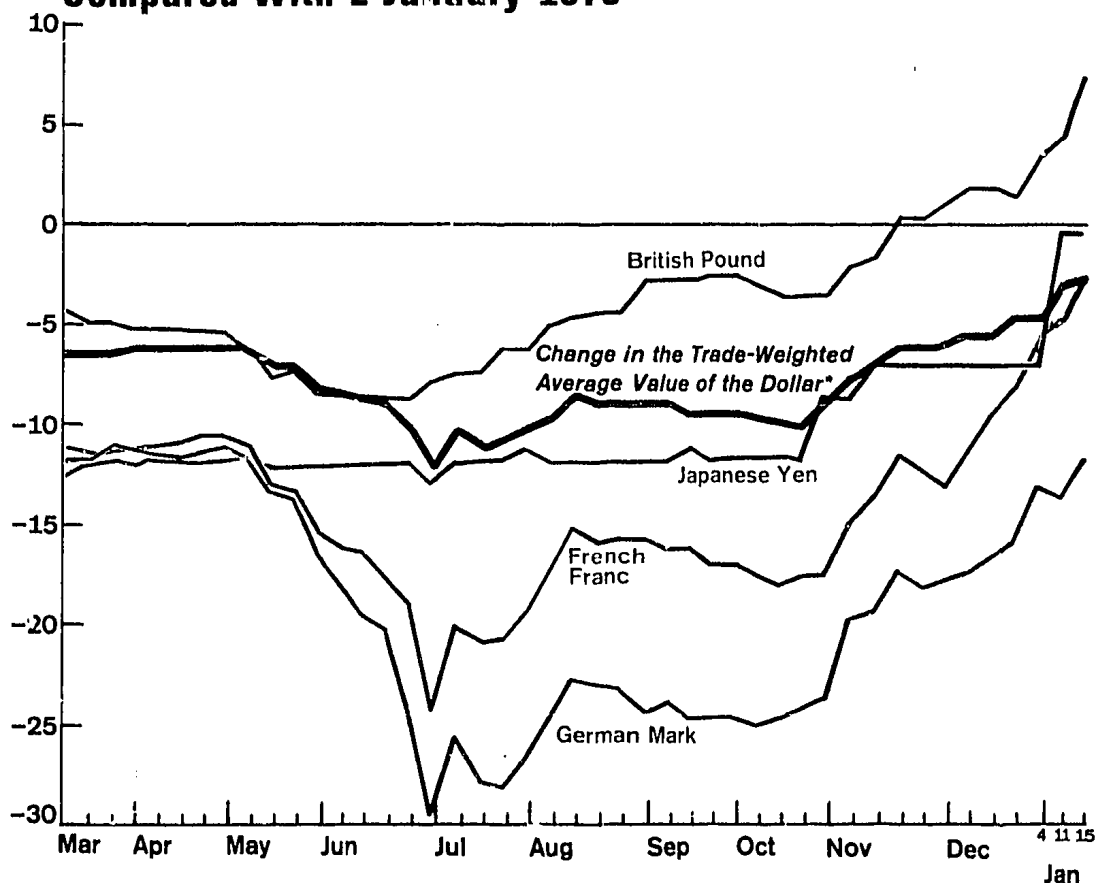
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**SECRET****INTERNATIONAL MONETARY DEVELOPMENTS**

The Committee of Twenty meeting in Rome this week will focus on the effects of sharply increased oil prices on the world monetary situation. The views of some nations were revealed at a closed meeting of central bankers held in Basel last week.

European bankers reportedly expressed deep concern over the viability of existing exchange rates. Most felt that the rates, once believed worthy of defense, were now outdated because of the impact of higher oil bills on their countries' balances of payments. The French representative said that it was more important for the Europeans to maintain the joint float than to support their exchange rates against the dollar. A strengthening dollar would, of course, improve Europe's competitive position. The Europeans apparently were in unanimous agreement that continued floating

**Percent Change In the Value of the US Dollar  
Relative to Selected Foreign Currencies  
Compared With 2 January 1973**



\*Relative to 16 major currencies  
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of their currencies as a group was essential. Even Japan has accepted the necessity for floating as an interim measure while stressing the need to return ultimately to fixed rates.

West Germany, the only European nation that has intervened heavily to hold down the dollar's recent appreciation, has expressed disappointment that other European nations and the United States have not done more to maintain market stability. Bundesbank spokesmen claimed that German intervention would have been even greater if efforts to stem the mark's decline had not begun to strain the joint float by increasing the spread between the mark and the French franc.

The bankers did not discuss basic monetary reform in Basel. They agreed that solution of current problems was more urgent. Some attention, however, will be given to reform at this week's Rome meeting, which originally had been scheduled expressly for this purpose.

A consensus may be developing that a few issues, such as the future role of the IMF, can be resolved in the near future. The French -- the primary opponent of many US proposals -- and perhaps the Germans have accepted this view. The 31 July deadline for a draft agreement on overall monetary reform cannot be met.

As for the money market, the dollar has again begun to strengthen after last week's brief downturn. Both sterling and the lira fell to new lows. A decline in German call money and Euromark rates, following the Bundesbank measure to increase domestic liquidity, helped to weaken the mark. The Bank of Japan sold \$160 million on Monday to hold the yen at 300 to the dollar.

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### **US DIRECT INVESTMENT IN CANADA**

US direct investment outlays in Canada in 1973 amounted to \$1.9 billion -- about a fifth of US direct foreign investment. The US outlays were equal to 40% of the amount the Canadians themselves invested in their economy.

US investment focuses more on Canadian manufacturing than on resource development. For the second consecutive year, US spending on manufacturing facilities hit \$1 billion. Interest in this sector continues strong in spite of the 8% appreciation of the Canadian dollar against the US dollar during 1970-71. Although this appreciation raised relative

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manufacturing costs, Canada remains highly competitive in many product lines. The bulk of US outlays in 1973 went to the chemical, metal rolling, and heavy electrical machinery industries, which are becoming sizable exporters to the United States.

At \$500 million, US investment spending in the Canadian petroleum and mining industries last year was only half that in manufacturing. Spending in the mining field continued at the 1972 level. In the iron ore industry, US firms completed several large projects, which have raised Canadian production capacity by more than one-third. US outlays in petroleum remained well below the level of 1970-71, when several large refineries were being built.

#### US Direct Investment Spending in Canada

|             | Million US \$ |                    |                |        |       |
|-------------|---------------|--------------------|----------------|--------|-------|
|             | Total         | Manu-<br>facturing | Petro-<br>leum | Mining | Other |
| 1965        | 1,502         | 678                | 245            | 137    | 442   |
| 1970        | 1,695         | 660                | 451            | 219    | 365   |
| 1971        | 1,346         | 535                | 336            | 287    | 188   |
| 1972        | 1,747         | 1,009              | 222            | 246    | 270   |
| 1973 (Est.) | 1,850         | 1,070              | 240            | 250    | 290   |

The annual US Department of Commerce survey of foreign investment plans indicates that US outlays in Canada will increase at about the same rate in 1974 as in 1973 (6%). Whereas the energy crisis will cause outlays in manufacturing to drop, a sharp gain is in prospect for petroleum. US firms plan increased exploration and drilling in Alberta and in the Arctic, as well as accelerating outlays to exploit the Athabasca tar sands. The biggest oil project scheduled for this year is a \$100 million exploration program in Alberta by an Exxon affiliate.

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**SECRET****Publications of Interest****East European Merchant Fleets**(CIA ER RP 73-22, December 1973, 

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The East European merchant fleet expanded 350% between the beginning of 1960 and the beginning of 1973 to 600 ships and 5.8 million deadweight tons. The Polish and East German holdings comprise 70% of total capacity. The fleet is expected to increase nearly 50% by 1975. Large tanker purchases are slated, particularly by Bulgaria, Poland, and Romania. Lucrative worldwide liner operations offer almost 70 scheduled routes.

**Western Investment in Yugoslavia: Will It Make A Difference?**(CIA ER IR 73-25, December 1973, 

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Despite recent improvements in Yugoslavia's investment climate, Western firms remain apprehensive about making major capital commitments. Chronic economic instability and frequent changes in Yugoslav economic policy have dissuaded many potential investors. As a result, foreign investment has neither had a major impact on the modernization of Yugoslavia's economy nor led to larger hard currency exports. To finance development, the Yugoslavs probably will continue to rely heavily on commercial borrowing, loans, and government-to-government credits.

**China's Road Network**(CIA ER RP 74-1, January 1974, 

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China's road network was approximately 700,000 km in length at the end of 1972, compared with only 75,000 km in 1949. Despite this manyfold expansion, roads continue to provide mainly short-haul, farm-to-market transport service. This publication describes the different types of roads and provides a map of the road network.

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